BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2002-1-E - ORDER NO. 2002-235

MARCH 29, 2002

IN RE: Annual Review of Base Rates for Fuel Costs of Carolina Power & Light Company.	))))	ORDER APPROVING BASE RATES FOR FUEL COSTS

On March 20, 2002, the Public Service Commission of South Carolina ("the Commission") held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by Carolina Power & Light Company ("CP&L" or "the Company") to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 2001). The review of this case is from January 2001 through December 2001.

At the public hearing, William F. Austin, Esquire, and Len S. Anthony, Esquire, represented CP&L; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); and Florence P. Belser, Deputy General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of Ronnie M. Coats, Larry A. Washington, and Ronald R. Penny on behalf of CP&L; the testimony of Jacqueline R. Cherry and A. R. Watts on behalf of the Commission Staff; and five (5) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from January, 2001, through December, 2001, CP&L's total burned fuel costs for its electric operations amounted to $653,970,474. Hearing Exhibit No. 4, Audit Department Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for CP&L's fossil, nuclear, and hydroelectric plants for January, 2001, through December, 2001. The fossil generation ranged from a high of 62% in March to a low of 52% in May. The nuclear generation ranged from a high of 48% in May to a low of 37% in March. The percentage of generation by hydro ranged from a high of 1% in March, April, June, August, September, and December to a low of 0% in January, February, May, July, October and November. Hearing Exhibit No. 5, Utilities Department Exhibit No. 3.

3. During the January, 2001, through December, 2001, period, coal suppliers delivered 12,490,598.06 tons of coal. The Commission Staff's audit of CP&L's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from $42.48 per ton in June to $45.04 per ton in December. Hearing Exhibit No. 4, Audit Exhibit A.

4. According to CP&L's witness Ronnie M. Coats, the performance of CP&L's nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

CP&L system actual capacity factors –

CP&L data for PWRs January, 2001-December, 2001	81.0%	2 units refueled
CP&L data for BWRs January, 2001-December, 2001	97.0%	1 unit refueled

National average capacity factors -

NERC data for PWRs 5 year 1996-2000	79%
NERC data for BWRs 5 year 1996-2000	71%

5. Staff collected and reviewed certain generation statistics of major CP&L plants for the twelve months ending December 31, 2001. The nuclear fueled Harris plant and Robinson 2 plant had the lowest average fuel cost at 0.44 cents per kilowatt-hour. The highest amount of generation was 14,119,422 megawatt-hours produced at the coal fueled Roxboro Plant. Hearing Exhibit No. 5, Utilities Department Exhibit 4.

6. The Commission Staff conducted an extensive review and audit of CP&L's fuel purchasing practices and procedures for the subject period. The Staff's

accounting witness, Jacqueline R. Cherry, testified that CP&L's fuel costs, as adjusted by Staff, were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 4, Audit Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 2001) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of CP&L's fuel revenues and expenses for the review period ending March, 2002, including estimated fuel costs for the months of January, 2002, February, 2002, and March, 2002, and Staff and Company proposed adjustments produces an under-recovery of $6,708,002. Staff calculated an under-recovery of $9,906,921 for the period of January 2001, through December, 2001, to which Staff added the projected over-recovery of $1,130,546 for the month of January, 2002, the projected over-recovery of $1,189,539 for the month of February, 2002, and the projected over-recovery of $878,834 for the month of March, 2002 to arrive at a cumulative under-recovery of $6,708,002 as of

March, 2002. CP&L accepted Staff's adjustments to the cumulative fuel costs. Testimony of Cherry, p. 4; Hearing Exhibit No. 4, Audit Exhibit G.

9. For the base rate fuel component for the period ending March, 2003, Staff calculated a factor of 1.485 cents per kilowatt-hour. This factor is necessary for CP&L to recover virtually all of its anticipated and booked fuel expenses, excluding the previously amortized portion. In making its calculation, Staff utilized the projected sales and fuel costs for the twelve months ending March, 2003, included the under-recovered balance of $9,906,921 as of December, 2001, and removed $2,224,165 from the under-recovered balance to account for the Commission's previously approved amortization of a certain dollar amount over a four year period.[1] Testimony of Watts, pp. 2-3; Hearing Exhibit No. 5, Utilities Exhibit 10.

10. CP&L's projected average fuel expense for the period of April, 2002, through March, 2003, was 1.490 cents per kilowatt-hour. Testimony of Penny, p. 3. However, at the hearing, witness Penny stated that CP&L adopted the accounting adjustments proposed by Staff witness Cherry and the resulting fuel factor as calculated by staff witness Watts of 1.485 cents per kilowatt-hour.

11. Company witness Penny proposed that the Commission approve a new fuel factor of 1.485 cents per kilowatt-hour for the next twelve-month period. Penny stated that a fuel factor of 1.485 cents per kilowatt-hour included the amount necessary for CP&L to recover its projected fuel costs for the time period April, 2002, through

[1] By Commission Order No. 2000-299(dated March 31, 2000) in Docket No. 2000-001-E, the Commission approved a four-year amortization of $8,896,659.

March, 2003, and will recover the eligible under-recovery at March, 2002. Testimony of Penny, pp. 3-4.

12. Using the currently projected sales and fuel cost data and the adjusted and projected under-recovery of $9,906,921 through December, 2001, Staff projected the average fuel expense to be 1.485 cents per kilowatt-hour. The currently approved fuel factor is 1.517 cents per kilowatt-hour. Applying the currently approved fuel factor of 1.517 cents per kilowatt-hour would produce an estimated over-recovery for the next period of $2,327,805. Testimony of Watts from Hearing; Hearing Exhibit No. 5, p. 3 and Utilities Department Exhibit 10.

13. During the period under review, Brunswick Unit 2, Robinson Unit 2, and Harris Unit 1 were down for refueling during some portion of the period. The nuclear units operated well during the period under review. All outages were reviewed by Staff (Hearing Exhibit No. 5, Utilities Department Exhibit 2A), and a determination was made by Staff as to the prudency of the outages. Staff determined that there were no Company actions which required CP&L's customers to be subject to incurring higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that CP&L's nuclear units had achieved an actual capacity factor of 88.9% for the review period, even though CP&L experienced refueling outages at three of its four nuclear plants during this review period as well as steam generator replacement at the Harris plant. Testimony of Watts, p. 2.

14. According to CP&L witness Coats, the Company's nuclear generation system achieved a net capacity factor of 89%. Witness Coats also testified that excluding outage time associated with reasonable refueling outages raised the net capacity factor to approximately 101.9%. Testimony of Coats, p. 6.

15. At the hearing on this matter, the Consumer Advocate requested the Commission to take judicial notice of an Order of the North Carolina Utilities Commission ("NCUC") issued September 13, 2001, in Docket No. E-2, Sub 784 in which the NCUC approved a fuel charge adjustment for CP&L. In its Order, the NCUC adopted the use of a marketer percentage of 60%. The Marketer Stipulation is a stipulation between the North Carolina Public Staff, the North Carolina Attorney General, CP&L, Duke Power Company, and North Carolina Power regarding the proper methodology for determining the fuel cost associated with power purchases from power marketers and other supplies, and the Marketer Stipulation allows a utility to use a certain percentage of the energy cost of the purchase as a proxy for the fuel component of power purchased from a power marketer when the fuel cost component is not known. NCUC Order, pp. 8-9 (issued Sept. 13, 2001). In its Order, the NCUC found 60% to be the appropriate marketer percentage under the Marketer Stipulation.

16. Following the hearing, the Consumer Advocate sent a letter to the Commission's Executive Director, in which the Consumer Advocate requested that the Commission adjust CP&L's allowable recovered fuel cost to allow for recovery of 60% of its purchased power costs where the specific fuel cost is not known. The Consumer Advocate based his request on S.C. Code Ann. § 58-27-865(A)(Supp. 2001) where "fuel

cost" is defined as "the cost of fuel, fuel costs related to purchased power, and the cost of SO_2 emission allowances as used and shall be reduced by the net proceeds of any sales of SO_2 emission allowances by the utility."

17. Upon presentation of this matter to the Commission for decision, the Staff informed the Commission of the Consumer Advocate's letter and request and, further, informed the Commission that CP&L had verbally agreed to the Consumer Advocate's request.

18. Recalculation of the purchased power fuel cost, where the actual fuel cost is not known and using the 60% proxy for fuel cost, results in a fuel factor of 1.471 cents per kilowatt-hour. The recalculated balance at March, 2002, is an under-recovery of $5,741,424, and the projected balance at March, 2003, is an under-recovery of $10,830.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., § 58-27-865(B)(Supp. 2001), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F)

requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

3. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

4. Further, S.C. Code Ann. § 58-27-865 (F) (Supp. 2001) provides that:

> [t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity

> being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

5. After considering the directives of §58-27-865 (B) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, the Commission determines that the appropriate base fuel factor for April, 2002, through March, 2003, is 1.471 cents per kilowatt-hour. The Commission finds that a 1.471 cents per kilowatt-hour fuel component will allow CP&L to recover its projected fuel costs and the under-recovered fuel costs as found appropriate herein. The 1.471 cents per kilowatt-hour fuel component that is found appropriate herein is based upon the Consumer Advocate's request to apply a proxy factor of 60% to those purchase power adjustments where the specific fuel cost is not known and CP&L's assent to that request of the Consumer Advocate.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period April, 2002, through March, 2003, is set at 1.471 cents per kilowatt-hour.

2. CP&L shall comply with the notice requirements set forth in S.C. Code Ann., § 58-27-865(B)(Supp. 2001) and shall send notice of the fuel factor increase to the utility customers with the next billing.

3. CP&L shall continue to file the monthly reports as previously required.

4. CP&L shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

5. CP&L shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

6. The Staff is instructed to monitor the cumulative recovery account.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

William Saunders

Chairman

ATTEST:

Gary E. Walsh

Executive Director

(SEAL)